

WILLIAM A. MUNDELL
CHAIRMAN

JIM IRVIN
COMMISSIONER

MARC SPITZER
COMMISSIONER



BRIAN C. McNEIL
EXECUTIVE SECRETARY

MARK SENDROW
DIRECTOR

SECURITIES DIVISION
1300 West Washington, Third Floor
Phoenix, AZ 85007-2996
TELEPHONE: (602) 542-4242
FAX: (602) 594-7470
E-MAIL: accsec@ccsd.cc.state.az.us

ARIZONA CORPORATION COMMISSION

OPEN MEETING ITEM

MEMORANDUM

TO: Chairman William A. Mundell
Commissioner Jim Irvin
Commissioner Marc Spitzer

Arizona Corporation Commission

DOCKETED

JUL 11 2001

FROM: Mark Sendrow *MS*
Director of Securities

DOCKETED BY	<i>[Signature]</i>
-------------	--------------------

DATE: July 11, 2001

RE: Proposed Order to Cease and Desist, Order of Revocation, Order for Administrative Penalties and Consent to Same Re: Stephen Michael Johnson, d/b/a Ferndale Financial Group, Docket No. S-03403A-01-0000

CC: Brian C. McNeil, Executive Secretary

AZ CORP COMMISSION
DOCUMENT CONTROL

2001 JUL 11 A 8:17

RECEIVED

A copy of the above-referenced proposed order, which has been executed by Stephen Michael Johnson, is attached to this memorandum. The order directs Mr. Johnson to cease and desist from violating the Arizona Securities Act, and to pay an administrative penalty of \$5,000, for having offered and sold unregistered securities in the form of fractional, undivided interests in oil and gas rights and/or investment contracts. The securities that Mr. Johnson offered and sold were membership interests in Petroleum Resources, L.L.C. (the "LLC"), an entity organized under the Utah Limited Liability Company Act.

Mr. Johnson's securities salesman's registration will be revoked pursuant to the proposed order, and Mr. Johnson has agreed not to apply for registration as a salesman or dealer, or for licensure as an investment adviser or investment adviser representative, until such time as the administrative penalty has been paid in full. In addition, Mr. Johnson has agreed to cooperate with the Division in other proceedings. In particular, the Division may commence proceedings against another individual who participated in offering and selling the LLC interests to investors, and the Division expects that Mr. Johnson's testimony would be valuable to the Division in such proceeding.

Mr. Johnson sold the LLC interests to six investors, raising approximately \$500,000 in invested funds for the LLC. These sales were not recorded on the books and records of the

dealer firm with which Mr. Johnson was associated at the time of the sales, and Mr. Johnson did not inform the dealer of his participation in offering and selling the LLC interests.

The Division believes the proposed order would adequately address Mr. Johnson's conduct and would serve the public interest. The Division respectfully recommends approval of this proposed order.

Originator: Amy J. Leeson

AG assigned: Moira McCarthy

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 WILLIAM A. MUNDELL
4 Chairman
5 JIM IRVIN
6 Commissioner
7 MARC SPITZER
8 Commissioner

9 In the matter of:

) DOCKET NO. S-03403A-01-0000

10 STEPHEN MICHAEL JOHNSON
11 (CRD #721408),
12 d/b/a FERNDAL FINANCIAL GROUP,
13 839 S. Westwood #245
14 Mesa, Arizona 85210,

Respondent.

) DECISION NO. _____

) **ORDER TO CEASE AND DESIST, ORDER**
) **OF REVOCATION, ORDER FOR**
) **ADMINISTRATIVE PENALTIES AND**
) **CONSENT TO SAME**

15 Respondent Stephen Michael Johnson ("JOHNSON") elects to permanently waive any right to
16 a hearing and appeal under Articles 11 and 12 of the Securities Act of Arizona, A.R.S. § 44-1801
17 *et seq.* ("Securities Act") with respect to this Order To Cease And Desist, Order of Revocation,
18 Order for Administrative Penalties and Consent to Same ("Order"). JOHNSON admits the
19 jurisdiction of the Arizona Corporation Commission ("Commission"); admits the Findings of Fact
20 and Conclusions of Law contained in this Order; and consents to the entry of this Order by the
21 Commission.

22 **I.**

23 **FINDINGS OF FACT**

24 1. JOHNSON, CRD #721408, has been a registered securities salesman in Arizona since at
25 least 1997. JOHNSON was associated with the following dealer firms during the time period
26 relevant to this matter: Washington Square Securities, Inc. ("WSS") (1997), American General
Securities Incorporated ("American General") (January – August 1998), New York Life Securities,
Inc. (October 1998 – July 1999), LifeUSA Securities, Inc., which became USAllianz Securities, Inc.

1 (June 1999 – March 2001). JOHNSON was terminated by USAllianz Securities, Inc., shortly after
2 the Notice of Opportunity for Hearing was filed in this matter and is not presently associated with a
3 dealer firm.

4 2. JOHNSON has been doing business as Ferndale Financial Group (“Ferndale”) since at
5 least December 1996. In this Order, Ferndale and JOHNSON are collectively referred to as
6 “JOHNSON.” At all times relevant to this matter, JOHNSON has resided in Arizona. JOHNSON’s
7 address is 839 S. Westwood #245, Mesa, Arizona 85210.

8 3. Between August 1997 and June 1998, while he was registered with WSS or American
9 General, JOHNSON offered or sold securities in the form of fractional, undivided interests in oil
10 and gas rights and/or investment contracts. The securities took the form of membership interests in
11 Petroleum Resources, L.L.C. (the “LLC”), an entity organized under the Utah Limited Liability
12 Company Act.

13 4. JOHNSON offered or sold the securities from his home office and/or other locations in
14 Arizona.

15 5. JOHNSON received compensation for offering and/or selling the securities, in the form
16 of an ownership interest in the LLC.

17 6. JOHNSON raised approximately \$500,000 in invested funds for the LLC, from six
18 investors, of whom one was an Arizona resident.

19 7. The sales of LLC interests made by JOHNSON were not recorded on the books and
20 records of the dealer firm with which JOHNSON was associated at the time of the sales.

21 8. JOHNSON neither sought nor received approval from WSS or American General to
22 offer or sell LLC interests.

23 9. The business of the LLC was to operate oil and gas wells located in Oklahoma and
24 Kansas pursuant to two leases, and to drill and develop additional wells pursuant to the leases.

25 10. JOHNSON took steps to investigate the advisability of investing in the LLC, prior to
26 offering LLC interests to investors. He did this by traveling to Oklahoma and Kansas to inspect the

1 oil and gas wells, and by talking with the operating managers in the field in Oklahoma and Kansas
2 and examining their records relating to the business.

3 11. The initial members of the LLC when it was organized were JOHNSON and The
4 Shasta Trust, which was a front for William Robertson McRae (a/k/a "Peter" McRae). JOHNSON
5 signed the LLC's Articles of Organization as "president" and "manager," and JOHNSON held
6 himself out to the investors and others as "president," but McRae exercised sole management
7 control of the LLC from its organization date, on or about October 31, 1997, until in or about
8 August 1998.

9 12. JOHNSON and McRae agreed in 1997 that McRae would teach JOHNSON how to
10 manage an oil and gas company, and that JOHNSON would eventually become a salaried manager
11 of the LLC as well as a shareholder.

12 13. In 1996 McRae and his wife, Barbara McRae, had consented to entry of a judgment
13 prior to trial in a civil action that had been commenced by the Securities Division. That civil action
14 concerned the fraudulent offer and sale of investments in oil and gas ventures to at least 95
15 investors, in which over \$2 million had been lost. Pursuant to the 1996 consent judgment, the
16 McRaes had been permanently enjoined from offering or selling any securities, from the date of the
17 judgment forward. The McRaes had been further enjoined from committing securities fraud as
18 defined in A.R.S. § 44-1991, and from committing fraud in connection with the advertisement and
19 sale of merchandise as defined in A.R.S. § 44-1552. In addition, the McRaes had been ordered to
20 pay restitution in the amount of \$2,004,625 and a civil penalty of \$100,000.

21 14. JOHNSON first learned the facts stated in paragraph 13, in or about June 1998.
22 Consequently, with the cooperation of investors, JOHNSON took over control of the LLC from
23 McRae and managed the LLC business, from in or about August 1998, to in or about September
24 1999. An investor board was constituted late in 1998, but JOHNSON remained the sole executive
25 officer during this period, and JOHNSON managed the day-to-day business of the LLC.
26

15. During the period August 1998 through September 1999, JOHNSON devoted virtually all of his working time to managing the LLC business.

II.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.

2. JOHNSON offered or sold securities, within the meaning of A.R.S. §§ 44-1801(15), 44-1801(21), and 44-1801(26).

3. JOHNSON violated A.R.S. § 44-1841 by offering or selling, within or from Arizona, securities that were neither registered nor exempt from registration.

4. JOHNSON's conduct subjects JOHNSON to an order of revocation pursuant to A.R.S. § 44-1962(A). Specifically, JOHNSON:

a) has engaged in conduct specified by A.R.S. § 44-1962(A)(2) in that he violated a provision of the Securities Act by selling unregistered securities within or from Arizona; and

b) has engaged in conduct specified by A.R.S. § 44-1962(A)(10) and Ariz. Admin. Code R14-4-130(A)(17) – specifically, effecting sales of securities that were not recorded on the records of the dealer firm with which he was associated at the time of the sales.

5. JOHNSON's conduct is grounds for a cease and desist order pursuant to A.R.S. § 44-2032.

6. JOHNSON's conduct is grounds for administrative penalties under A.R.S. § 44-2036.

III.

ORDER

THEREFORE, on the basis of the Findings of Fact, Conclusions of Law, and JOHNSON's consent to the entry of this Order, the Commission finds that the following relief is appropriate, in the public interest, and necessary for the protection of investors:

1 IT IS ORDERED, pursuant to A.R.S. § 44-2032, that JOHNSON, and any of JOHNSON's
2 agents, employees, successors and assigns, permanently cease and desist from violating the
3 Securities Act.

4 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that JOHNSON shall pay an
5 administrative penalty in the amount of \$5,000.00. Payment shall be made by cashier's checks or
6 money orders payable to the "State of Arizona" in installments as follows: \$1,000.00 on the date
7 of this Order; and at least \$150.00 per month on or before the 1st day of each month beginning on
8 September 1, 2001. Any amount outstanding shall accrue interest at the rate of 10% per annum
9 from the date of this Order until paid in full. If at any time JOHNSON does not comply with this
10 order for administrative penalties, any outstanding balance shall be in default and shall be
11 immediately due and payable. For the purposes of this Order, a bankruptcy filing by JOHNSON
12 that seeks discharge of this obligation to pay administrative penalties shall be an act of default.

13 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-1962, that JOHNSON's securities
14 salesman registration is revoked.

15 ...

16 ...

17 ...

18 ...

19 ...

20 ...

21 ...

22 ...

23 ...

24 ...

25 ...

26 ...

1 IT IS FURTHER ORDERED that this Order shall become effective immediately.

2 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

3
4
5 CHAIRMAN

COMMISSIONER

COMMISSIONER

6 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,
7 Executive Secretary of the Arizona Corporation
8 Commission, have hereunto set my hand and caused the
9 official seal of the Commission to be affixed at the
10 Capitol, in the City of Phoenix, this _____ day of
11 _____, 2001.

12 _____
BRIAN C. McNEIL
Executive Secretary

13
14 _____
DISSENT

15
16 This document is available in alternative formats by contacting Shelly M. Hood, ADA Coordinator,
17 voice phone number 602-542-3931, E-mail shood@cc.state.az.us.

18 (AJL)
19
20
21
22
23
24
25
26

CONSENT TO ENTRY OF ORDER

1
2 1. Stephen Michael Johnson ("JOHNSON"), an individual, admits the jurisdiction of the
3 Commission over the subject matter of this proceeding. JOHNSON acknowledges that he has
4 been fully advised of his right to a hearing to present evidence and call witnesses, and JOHNSON
5 knowingly and voluntarily waives any and all rights to a hearing before the Commission and all
6 other rights otherwise available under Article 11 of the Securities Act and Title 14 of the Arizona
7 Administrative Code. JOHNSON acknowledges that this Order to Cease and Desist, Order of
8 Revocation, Order for Administrative Penalties and Consent to Same ("Order") constitutes a valid
9 final order of the Commission.

10 2. JOHNSON knowingly and voluntarily waives any right under Article 12 of the
11 Securities Act to judicial review by any court by way of suit, appeal, or extraordinary relief
12 resulting from the entry of this Order.

13 3. JOHNSON acknowledges and agrees that this Order is entered into freely and
14 voluntarily and that no promise was made or coercion used to induce such entry.

15 4. JOHNSON acknowledges that he has chosen not to be represented by counsel in this
16 matter, he has reviewed this Order and understands all terms it contains.

17 5. JOHNSON admits the Findings of Fact and Conclusions of Law contained in this
18 Order.

19 6. While this Order settles this administrative matter between JOHNSON and the
20 Commission, JOHNSON understands that this Order does not preclude the Commission from
21 instituting other administrative proceedings based on violations that are not addressed by this
22 Order.

23 7. JOHNSON understands that this Order does not preclude the Commission from
24 referring this matter to any governmental agency for administrative, civil, or criminal proceedings
25 that may be related to the matters addressed by this Order.
26

1 8. JOHNSON understands that this Order does not preclude any other agency or officer of
2 the state of Arizona or its subdivisions from instituting administrative, civil, or criminal
3 proceedings that may be related to matters addressed by this Order.

4 9. JOHNSON acknowledges and agrees that the existence of this Order would be a
5 "material fact" to any reasonable investor, and JOHNSON acknowledges and agrees that the
6 existence of this Order, and its terms, will be affirmatively disclosed by him to any person to
7 whom JOHNSON may offer or sell securities, within the meaning of A.R.S. §§ 44-1801(15), 44-
8 1801(21) and 44-1801(26), and to any person with respect to whom JOHNSON may act as an
9 investment adviser or investment adviser representative, within the meaning of A.R.S. § 44-
10 3101(4) or § 44-3101(5), in any instance in which such offer or sale, or such provision of
11 investment advice, occurs within or from Arizona.

12 10. JOHNSON agrees that he will not apply to the state of Arizona for registration as a
13 securities dealer or salesman or for licensure as an investment adviser or investment adviser
14 representative until such time as all penalties under this Order have been paid in full.

15 11. JOHNSON agrees that until penalties have been paid in full, JOHNSON will notify the
16 Director of the Securities Division within 30 days of any change in home address or any change in
17 JOHNSON's ability to pay amounts due under this Order.


18 12. JOHNSON understands that default shall render him liable to the Commission for its
19 costs of collection and interest at the maximum legal rate.

20 13. JOHNSON agrees that he will continue to cooperate with the Securities Division
21 including, but not limited to, providing complete and accurate testimony and otherwise
22 cooperating with the state of Arizona in any related investigation or any other matters arising from
23 the activities described in this Order.

24 ...

25 ...

26 ...


STEPHEN MICHAEL JOHNSON

Lisa Busse
NOTARY PUBLIC



Notary Public State of Arizona
Maricopa County
Lisa Busse
Expires October 30, 2004